

VATTENFALL



Vattenfall A/S

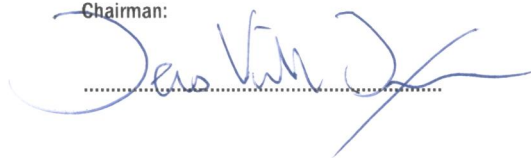
Jupitervej 6, 6000 Kolding

CVR no. 21 31 13 32

Annual Report 2018

Approved at the annual general meeting of shareholders on 4 June 2019

Chairman:


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Statement by the Board of Directors and the Executive Board

The Board of Directors and the Executive Board have today discussed and approved the annual report of Vattenfall A/S for the financial year 1 January – 31 December 2018.

The annual report has been prepared in accordance with the Danish Financial Statements Act.

It is our opinion that the financial statements give a true and fair view of the Company's financial position at 31 December 2018 and of the results of the Company's operations for the financial year 1 January – 31 December 2018.

Further, in our opinion, the Management's review gives a fair review of the development in the Company's operations and financial matters and the results of the Company's operations and financial position.

We recommend that the annual report be approved at the annual general meeting.

Copenhagen, 4 June 2019
Executive Board:

Michael Thorndahl Simmelsgaard
CEO

Board of Directors:

Kerstin Yvonne Teresia Karlsson
Landgren
Chairman

Lars Peter Joelsson

Michael Thorndahl Simmelsgaard

Independent auditors' report

To the shareholder of Vattenfall A/S

Opinion

We have audited the financial statements of Vattenfall A/S for the financial year 1 January – 31 December 2018, which comprise income statement, balance sheet, statement of changes in equity and notes, including accounting policies. The financial statements are prepared in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the financial position of the Company at 31 December 2018 and of the results of the Company's operations for the financial year 1 January – 31 December 2018 in accordance with the Danish Financial Statements Act.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the "Auditor's responsibilities for the audit of the financial statements" section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these rules and requirements.

Management's responsibilities for the financial statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the Danish Financial Statements Act and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, Management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting in preparing the financial statements unless Management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance as to whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and additional requirements applicable in Denmark will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit conducted in accordance with ISAs and additional requirements applicable in Denmark, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- ▶ Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- ▶ Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- ▶ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.

Independent auditor's report

- ▶ Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the financial statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- ▶ Evaluate the overall presentation, structure and contents of the financial statements, including the note disclosures, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Statement on the Management's review

Management is responsible for the Management's review.

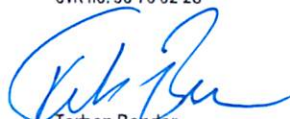
Our opinion on the financial statements does not cover the Management's review, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the Management's review and, in doing so, consider whether the Management's review is materially inconsistent with the financial statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether the Management's review provides the information required under the Danish Financial Statements Act.

Based on the work we have performed, we conclude that the Management's review is in accordance with the financial statements and has been prepared in accordance with the requirements of the Danish Financial Statements Act. We did not identify any material misstatement of the Management's review.

Copenhagen, 4 June 2019
ERNST & YOUNG
Godkendt Revisionspartnerselskab
CVR no. 30 70 02 28



Torben Bender
State Authorised
Public Accountant
mne21332



Karsten Bøgel
State Authorised
Public Accountant
mne27849

Management's review

Financial highlights

DKK'000	2018	2017	2016	2015	2014
Key figures					
Revenue	208,126	155,483	204,098	1,166,758	2,503,753
Operation profit/loss	-12,834	-49,481	-18,710	-320,219	28,643
Net financials	-4,576	8,279	13,670	8,054	-21,729
Profit/loss for the year	-10,901	-15,824	149,132	-311,705	84,335
Assets					
Fixed assets	2,512	2,294	1,941	810,661	2,305,701
Non-fixed assets	140,827	433,270	719,935	680,357	1,497,719
Total Assets	143,339	435,564	721,876	1,491,018	3,803,420
Investments, plant and machinery	0	0	0	22,615	77,665
Equity	76,081	366,982	390,768	937,436	2,349,141
Employees					
Average number of employees	18	18	20	177	306
Financial ratios					
Operating margin	-6.2 %	-31.8 %	-9.2 %	-27.4 %	1.1 %
Gross margin	2.4 %	-17.9 %	2.5 %	-0.4 %	6.3 %
Return on assets	-4.4 %	-8.6 %	-1.7 %	-12.1 %	0.5 %
Solvency ratio	53.1 %	84.3 %	54.1 %	62.9 %	61.8 %
Return on equity	-4.9 %	-4.2 %	21.6 %	19.0 %	3.3 %

Financial ratios are calculated in accordance with the Danish Society of Financial Analysts' guidelines on the calculation of financial ratios "Recommendations and Financial Ratios 2015". For terms and definitions, please see the accounting policies.

The annual report of Vattenfall A/S for 2018 has been prepared in accordance with the provisions applying to large reporting class C enterprises under the Danish Financial Statements Act.

The accounting policies used in the preparation of the financial statements are consistent with those of last year.

The Company has in 2018 made adjustments to prior years due to material errors. The years 2014-2016 have not been adjusted in the financial highlights.

Material errors regarding prior years

Due to material errors in the recognition of prepayments received from customers and the calculation of revenue accruals, adjustments have been made of the equity at 1 January 2018. Comparative figures as well as the financial highlights for the year 2017 have been adjusted.

The adjustments have the following impact on the financial statement:

DKK'000	2017	2017 adjusted	Impact
Profit/loss for the year	-9,558	-15,824	-6,266
Receivables from group entities	323,631	325,877	2,246
Tax receivables	21,203	22,970	1,767
Other receivables	62,582	46,183	-16,399
Prepayments received from customers	0	1,842	1,842
Equity	381,210	366,982	14,228

Included in the adjustment of the equity in 2017 is also an adjustment of profit/loss regarding prior years of DKK -7,962 thousand.

Management's review

Business review

Vattenfall A/S has been responsible for the Danish activities of the Vattenfall Group, which comprised of the production of electricity and heat. Following a decision by the Group, the company has sold the power plants in 2016. The Vattenfall Group has decided to focus on wind power production in Denmark through the subsidiary Vattenfall Vindkraft A/S.

Operations

The business-to-business area remains in Vattenfall A/S in addition to a number of group staff functions.

Unusual matters having affected the financial statements

The annual report is affected by the correction of material errors regarding prior years according to the description above. Besides this correction there has been no unusual matters that would have affected the financial statements.

Development in financial activities and matters

The Company's income statement for 2018 shows a loss of DKK 10,901 thousand against a loss of DKK 15,824 thousand last year. The Company's balance sheet at 31 December 2018 shows equity of DKK 76,081 thousand.

During 2018 an extraordinary dividend distribution of DKK 280,000 thousand has been made to transfer unnecessary cash to the parent company.

Profit for the year compared with previously expressed expectations

There has been an increase in both revenue and cost of sales which is primarily driven by an increase in the electricity prices in 2018 compared to 2017. The result of the year is as expected.

The impact of activities linked to the finalization of the sale of the power plants is limited in 2018 compared to 2017.

Market risks

The company is facing a limited exposure to market- and price risk in the current setup on the business-to-business area.

Research and development activities

Following the sale of the operating units, Vattenfall A/S is no longer part of any R&D activities.

Knowledge resources

At 31 December 2018, Vattenfall A/S had 18 employees who works at the offices in Kolding and Copenhagen. The nature of their work is of administrative character.

Statutory CSR report

Vattenfall A/S refers to the Vattenfall Group policies in the CSR area in compliance with section 99a (7) of the Danish Financial Statements Act on the reporting of corporate social responsibility.

The Vattenfall Group has decided to comply with the principles defined in the UN Global Compact guidelines, and therefore, Vattenfall's corporate social responsibility work is subject to these principles. Vattenfall's corporate social responsibility work comprises seven areas:

- Environmental impact
- Business ethics
- Anti-corruption policies
- Human rights
- Working environment
- Ethnic diversity
- Gender equality

Management's review

The results of the environmental efforts are discussed below.

The Company's work in relation to business ethics and anti-corruption policies is reflected in the Company's code of conduct together with a systematic registration of suppliers.

Corporate social responsibility (CSR)

Vattenfall depends on local communities, employees, customers and society at large, including the Company's immediate neighbours, policymakers, environmental organisations, owners and financial markets.

Without the confidence and trust of the surrounding world, we will not be able to operate and develop our business – in short: corporate responsibility creates value. Open and transparent dialogue and corporate responsibility are key to our day-to-day operations.

Each year, Vattenfall publishes a CSR report (on the Group's social responsibility) which complies with the guidelines of Global Reporting Initiative (GRI). The CSR report provides information that enables the measurement and assessment of the Company's ability to meet the expectations of local communities. The report gives access to data on Vattenfall's results in an environmental, social and financial perspective. Read the CSR report and download it at Vattenfall's website:

https://group.vattenfall.com/siteassets/corporate/corporate_comprend/investors/annual_reports/2019/vattenfall_annual_and_sustainability_report_2018_eng.pdf

Safety is one of our core values which also involves the safety of our employees, business partners and local communities. We must always make sure that our operations do not interfere with public health and safety. Vattenfall's definition of absence owing to industrial accidents is reflected in a financial ratio that is included in the monthly follow-up of all entities.

Vattenfall's working environment policy supports this work, and the Company is OHSAS 18001 certified. The working environment organisation at the individual locations ensures on a daily basis that the safety rules are complied with. Improvements to the working environment are continuously made in all departments of the Company.

The Company aims to increase the awareness, skills and knowledge of safety and health and to develop a safety and health culture. All employees at Vattenfall must be role models.

Account of the gender composition of management

The Board of Directors of Vattenfall A/S has set a goal for the under-represented gender in the board at 33-40%. At present, the under-represented gender accounts for 33% of the three board members appointed by the general meeting of shareholders and the goal is thereby met.

Moreover, the Board of Directors has confirmed that the Vattenfall group policy, which aims to increase the number of female leaders, also represents a goal for Vattenfall A/S.

The policy includes a definition of goals for newly appointed leaders in the Group's business units, goals for the group management's participation in support activities and the Group's introduction of an international mentoring programme for potential female leaders that is designed to help women create new career and leadership opportunities.

Following the sale of the power stations no new managers have been appointed during the financial year 2018.

Impact on the external environment

It is Vattenfall's goal that the Group should be a leading developer of environmental, sustainable energy production. Vattenfall has during 2017 defined a new purpose "Power Climate Smarter Living" with a goal to become fossil free within one generation.

Vattenfall exists to help all our customers power their lives in ever climate smarter ways and free from fossil fuel within one generation. The world urgently needs to find alternative ways of powering and heating its businesses, cities and homes more cleanly. Change has to happen, and fast. The solution is energy that is 100% free from fossil fuel and that powers all aspects of people's lives, including heating, transportation and manufacturing. Power Climate Smarter Living has been defined as Vattenfall's purpose and is the starting point for the strategy.

Management's review

Following the purpose statement strategic objectives have been defined as

- Leading towards sustainable consumption
- Leading towards sustainable production
- Having high performing operations
- Having empowered and engaged people

Recognition and measurement uncertainties

Following the sale of the power plants the operational exposure has been eliminated.

Events after the balance sheet date

No events materially affecting the Company's financial position have occurred subsequent to the financial year-end.

Outlook

Given the completion of the sale of the power plants, the company will primarily be active within the business-to-business sales segment in the future. Operationally a result close to zero is expected for the coming year.

Financial statements for the year 1 January – 31 December

Income statement

Note	DKK'000	2018	2017
3	Revenue	208,126	155,483
	Cost of sales	-213,871	-176,654
	Other operating income	25,926	14,918
	Other external expenses	-15,225	-21,585
	Gross profit/loss	4,956	-27,838
4	Staff costs	-16,823	-20,714
	Amortisation and depreciations	-967	-929
	Operating profit/loss	-12,834	-49,481
5	Financial income	832	9,521
6	Financial expenses	-5,408	-1,242
	Profit/loss before tax	-17,410	-41,202
7	Tax on profit/loss for the year	6,509	25,378
	Profit/loss for the year	-10,901	-15,824

Financial statements for the year 1 January – 31 December

Balance sheet

Note	DKK'000	2018	2017
	ASSETS		
	Fixed assets		
8	Property, plant and equipment		
	Fixtures and fittings, tools and equipment	2,512	2,294
	Total Property, plant and equipment	2,512	2,294
	Total fixed assets	2,512	2,294
	Non-fixed assets		
	Receivables		
	Trade receivables	57,552	38,215
9	Receivables from group entities	42,654	325,877
	Tax receivables	4,931	22,970
	Other receivables	33,420	46,183
	Total receivables	138,557	433,245
	Cash	25	25
	Total non-fixed assets	138,582	433,270
	TOTAL ASSETS	141,094	435,564

Financial statements for the year 1 January – 31 December

Balance sheet

Note	DKK'000	2018	2017
	EQUITY AND LIABILITIES		
	Equity		
	Share capital	10,000	10,000
	Retained earnings	66,081	356,982
	Total equity	76,081	366,982
	Provisions		
	Other provisions	0	1,000
	Total provisions	0	1,000
	Liabilities		
	Current liabilities		
	Prepayments received from customers	3,824	1,842
	Trade payables	7,592	5,630
	Payables to group entities	42,781	48,608
	Other payables	10,816	11,502
	Total current liabilities	65,013	67,582
	Total liabilities	65,013	67,582
	TOTAL EQUITY AND LIABILITIES	141,094	435,564

- 1 Accounting policies
- 2 Recognition and measurement uncertainties
- 10 Contractual obligations and contingencies, etc.
- 11 Related parties
- 12 Fee to the auditors appointed by the Company in general meeting
- 13 Proposed dividend recognized under equity

Financial statements for the year 1 January – 31 December

Statement of changes in equity

DKK'000	Share capital	Proposed dividends	Retained earnings	Total
Equity at 1 January 2017	10,000	0	380,768	390,768
Adjustment of equity at 1 January 2017	0	0	-7,962	-7,962
Adjusted equity at 1 January 2017	10,000	0	372,806	382,806
Profit/loss for the year	0	0	-9,558	-9,558
Adjustment of profit/loss for the year	0	0	-6,266	-6,266
Adjusted equity at 1 January 2018	10,000	0	356,982	366,982
Dividends distributed	0	0	-280,000	-280,000
Profit/loss for the year	0	0	-10,901	-10,901
Equity at 31 December 2018	10,000	0	66,081	76,081

The share capital comprises 100,000 shares of nominal value of DKK 100 each. All shares rank equally.

Financial statements for the year 1 January – 31 December

Notes to the financial statements

1 Accounting policies

The annual report of Vattenfall A/S for 2018 has been prepared in accordance with the provisions which apply to the large reporting class C entities under the Danish Financial Statements Act.

The financial statement is reported after same accounting policies as last year.

Material errors regarding prior years

Due to material errors in the recognition of prepayments received from customers and the calculation of revenue accruals, adjustments have been made of the equity at 1 January 2018. Comparative figures as well as the financial highlights for the year 2017 have been adjusted.

The adjustments have the following impact on the financial statement:

DKK'000	2017	2017 adjusted	Impact
Profit/ loss for the year	-9,558	-15,824	-6,266
Receivables from group entities	323,631	325,877	2,246
Tax receivables	21,203	22,970	1,767
Other receivables	62,582	46,183	-16,399
Prepayments received from customers	0	1,842	1,842
Equity	381,210	366,982	14,228

Included in the adjustment of the equity in 2017 is also an adjustment of profit/loss regarding prior years of DKK -7,962 thousand.

Omission of a cash flow statement

With reference to section 86(4) of the Danish Financial Statements Act, no cash flow statement has been prepared. The entity's cash flows are part of the consolidated cash flow statement for the parent company, Vattenfall AB.

Consolidated financial statements

Referring to section 112(1) of the Danish Financial Statements Act, no consolidated financial statements are prepared. The financial statements for Vattenfall A/S and its group entities are part of the consolidated financial statements for Vattenfall AB.

Basis of recognition and measurement

Assets are recognized in the balance sheet when it is probable that future economic benefits will flow to the Company and the value of the asset can be reliably measured.

Liabilities are recognized in the balance sheet when, as a result of past events, the Company has a legal or a constructive obligation, when an outflow of economic benefits is probable and when the value of the liability can be reliably measured.

On initial recognition, assets and liabilities are measured at cost. Subsequently, assets and liabilities are measured as described below for each individual item.

In recognizing and measuring assets and liabilities, any predictable losses and risks occurring prior to the presentation of the annual report that evidence conditions existing at the balance sheet date are taken into account.

Income is recognized in the income statement as earned while costs are recognized at the amounts relating to the financial year. Value adjustments of financial assets and liabilities are recognized in the income statement as financial income or financial expenses.

Reporting currency

The financial statements are presented in Danish kroner (DKK'000).

Financial statements for the year 1 January – 31 December

Notes to the financial statements

1 Accounting policies (continued)

Foreign currency translation

On initial recognition, transactions denominated in foreign currencies are translated at the exchange rate at the transaction date. Foreign exchange differences arising between the exchange rates at the transaction date and the date of payment are recognized in the income statement as financial income or financial expenses.

Receivables and payables and other monetary items denominated in foreign currencies are translated at the exchange rate at the balance sheet date. The difference between the exchange rates at the balance sheet date and the date at which the receivable or payable arose or was recognized in the most recent financial statements is recognized in the income statement as financial income or financial expenses.

Derivative financial instruments

On initial recognition, derivative financial instruments are recognized at cost in the balance sheet and are subsequently measured at fair value. Positive and negative fair values of derivative financial instruments are included in "Other receivables" and "Other payables", respectively.

Changes in the fair value of derivative financial instruments designated as and qualifying for recognition as a hedge of the fair value of a recognized asset or liability are recognized in the income statement together with changes in the fair value of the hedged asset or liability.

Changes in the fair value of derivative financial instruments designated as and qualifying for recognition as a hedge of future cash flows are recognized in receivables or payables and in equity. If the future transaction results in recognition of assets or liabilities, amounts previously recognized in equity are transferred to the cost of the asset or liability, respectively. If the hedged forecast transaction results in income or expenses, amounts previously deferred in equity are transferred to the income statement in the period in which the hedged item affects profit or loss.

For derivative financial instruments that do not qualify for hedge accounting, changes in fair value are recognized in the income statement on a regular basis.

Income statement

Revenue

Income from the sale of electricity and other related services is recognized in revenue at the time of delivery and when the risk passes to the buyer, provided that the income can be made up reliably. Revenue is measured net of VAT and other indirect taxes and discounts/rebates granted.

Income from the sale of advisory services is recognized in revenue as the service is provided.

Realised and unrealised gains and losses on commodity-based derivative financial instruments are included in the revenue.

Revenue is measured at the fair value of the agreed consideration excluding VAT and taxes charged on behalf of third parties. All discounts and rebates granted are recognized in revenue.

Cost of sales

Cost of sales comprise costs incurred in generating revenue for the year. Such costs include direct and indirect costs related to purchase of electricity.

Other operating income

Other operating income comprises items secondary to the entities' activities, including gains on disposal of intangible assets and items of property, plant and equipment.

Financial statements for the year 1 January – 31 December

Notes to the financial statements

1 Accounting policies (continued)

Other external expenses

Other external expenses include expenses related to distribution, sale, advertising, administration, premises, bad debts, payments under operating leases, etc.

Staff costs

Staff costs include wages and salaries, including compensated absence and pensions, as well as other social security contributions, etc. made to the entity's employees. The item is net of refunds made by public authorities.

Amortisation/depreciation and impairment of property, plant and equipment

The item comprises amortisation/depreciation and impairment of property, plant and equipment.

Where individual components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items, which are depreciated separately.

The basis of depreciation, which is calculated as cost less any residual value, is depreciated on a straight line basis over the expected useful life. The expected useful lives of the assets are as follows:

Fixtures and fittings, tools and equipment	3-5 years
Minor equipment (cars, trucks, office equipment and IT equipment)	3-7 years

The basis of depreciation is based on the residual value of the asset and is reduced by impairment losses, if any.

The residual value is determined at the time of acquisition. Where the residual value exceeds the carrying amount of the sub-components, no further depreciation charges are recognized. The depreciation period and the residual value are reassessed every year.

Financial income and financial expenses

Financial income and expenses are recognized in the income statement at the amounts relating to the financial year. Financial income and expenses comprise interest income and expense, realised and unrealised gains and losses on transactions denominated in foreign currencies as well as surcharges and refunds under the tax prepayment scheme, etc.

Tax

Tax for the year includes current tax on the year's expected taxable income and the year's deferred tax adjustments. The portion of the tax for the year that relates to the profit/loss for the year is recognized in the income statement, whereas the portion that relates to transactions taken to equity is recognized in equity.

The Company and its Danish group entities are jointly taxed. The Danish income tax charge is allocated between profit making and loss making Danish entities in proportion to their taxable income).

Jointly taxed entities entitled to a tax refund are reimbursed by the management company based on the rates applicable to interest allowances, and jointly taxed entities which have paid too little tax pay a surcharge according to the rates applicable to interest surcharges to the management company.

Financial statements for the year 1 January – 31 December

Notes to the financial statements

1 Accounting policies (continued)

Balance sheet

Property, plant and equipment

Property, plant and equipment, including land and buildings, leasehold improvements, production plant and non-current assets, are measured at cost less accumulated amortisation and impairment losses. The estimated costs for dismantling and removing as well as restoring the asset are added to the cost of property, plant and equipment if such costs are recognized as a provision.

The cost of self-constructed assets comprises direct and indirect costs of materials, components, sub-suppliers and wages.

Where individual components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items, which are depreciated separately.

Property, plant and equipment in the course of construction are recognized as property, plant and equipment in the course of construction in the balance sheet until the application date. After the application date, these assets are transferred to the relevant financial statement items under property, plant and equipment.

Subsequent costs, e.g. in connection with replacement of components of property, plant and equipment, are recognized in the carrying amount of the asset if it is probable that the costs will result in future economic benefits for the Company. The replaced components are derecognized in the balance sheet, and their carrying amount is transferred to profit or loss for the year. All other costs incurred for repair and maintenance are recognized in profit or loss as incurred.

Impairment tests are conducted of property, plant and equipment if there are indications of impairment losses. The impairment test is conducted of each individual asset or group of assets, respectively. The assets are written down to the higher of the value in use and net realisable value (recoverable amount) of the asset or group of assets if this is lower than the carrying amount.

Receivables

Receivables are measured at amortised cost, which is usually equivalent to the nominal value. Impairment is made of the value for anticipated bad debt losses.

Accrued income, etc. is recognized under other receivables. Other receivables is measured at amortised costs, which is in general equal to the nominal value.

Other receivables

Deposits etc. are recognized under other receivables. These assets are measured at cost.

Cash and cash equivalents

Given the nature of the Group's cash pool arrangement, cash pool balances are not considered cash, but are recognized under "Receivables from group entities".

Financial statements for the year 1 January – 31 December

Notes to the financial statements

1 Accounting policies (continued)

Equity

Proposed dividends

Dividend proposed for the financial year are presented as a separate item under "Equity".

Provisions

Provisions comprise expected future costs for contracts entered into regarding future delivery of goods.

Provisions are recognized when the enterprise has a legal or a constructive obligation and it is probable that there may be an outflow of resources embodying economic benefits to settle the obligation.

Provisions that are expected to be repaid later than one year after the balance sheet date are measured at the present value of the expected payments. Other provisions are measured at net realisable value.

Corporation tax

Current tax payable and receivable is recognized in the balance sheet as tax computed on the expected taxable income for the year, adjusted for tax on the taxable income of prior years and for prepaid tax.

Deferred tax is measured according to the liability method on all temporary differences between the carrying amount and the tax base of assets and liabilities. However, deferred tax is not recognized on temporary differences relating to goodwill which is not deductible for tax purposes and on office premises and other items where temporary differences, apart from business combinations, arise at the date of acquisition without affecting either profit/loss for the year or taxable income. Where alternative tax rules can be applied to determine the tax base, deferred tax is measured based on Management's intended use of the asset or settlement of the liability, respectively.

Deferred tax is measured according to the tax rules and at the tax rates applicable at the balance sheet date when the deferred tax is expected to crystallize as current tax. Deferred tax assets are recognized at the expected value of their utilization; either as a set-off against tax on future income or as a set-off against deferred tax liabilities in the same legal tax entity. Changes in deferred tax due to changes in the tax rate are recognized in the income statement.

Prepayments received from customers

Prepayments received from customers comprise prepaid revenue regarding subsequent financial reporting years.

Liabilities

Financial liabilities are recognized at the date of borrowing at the net proceeds received less transaction costs paid. On subsequent recognition, financial liabilities are measured at amortized cost, corresponding to the capitalized value, using the effective interest rate. Accordingly, the difference between the proceeds and the nominal value is recognized in the income statement over the term of the loan. Financial liabilities also include the capitalized residual lease liability in respect of finance leases.

Other liabilities are measured at net realizable value.

Segment information

Information is provided on business segments. Segment information is based on the Company's accounting policies, risks and internal financial management. Assets in the segment comprises the assets that are used directly in the revenue-generating activity of the segment. Segment liabilities comprise liabilities resulting from the activities of the segment, including trade and other payables.

Financial statements for the year 1 January – 31 December

Notes to the financial statements

1 Accounting policies (continued)

Financial ratios

Financial ratios are calculated in accordance with the Danish Finance Society's guidelines on the calculation of financial ratios "Recommendations and Financial Ratios 2015".

The financial ratios stated under "Financial highlights" have been calculated as follows:

Operating margin	$\frac{\text{Operating profit} \times 100}{\text{Revenue}}$
Gross margin ratio	$\frac{\text{Gross margin} \times 100}{\text{Revenue}}$
Return on assets	$\frac{\text{Profit/loss from operating activities} \times 100}{\text{Average assets}}$
Solvency ratio	$\frac{\text{Equity at year end} \times 100}{\text{Total equity and liabilities at year end}}$
Return on equity	$\frac{\text{Profit/loss for the year after tax} \times 100}{\text{Average equity}}$

Financial statements for the year 1 January – 31 December

Notes to the financial statements

2 Recognition and measurement uncertainties

The computation of the carrying amount of certain assets and liabilities requires assessments, estimates and assumptions regarding future events. The estimates used are based on historical experience and other factors which by Management are assessed to be reliable, but which by nature are associated with uncertainty. The assumptions may be incomplete or incorrect, and unexpected events or circumstances may arise.

3 Revenue

The Company renders goods and services only in Denmark.

Revenue is distributed in the following segments:

DKK'000	2018	2017
Sale of electricity, etc.	208,126	139,947
Other services	0	15,536
Total revenue	208,126	155,483

4 Staff costs

Staff costs are recognized as follows:

DKK'000	2018	2017
Wages and salaries	15,455	19,109
Pensions	1.366	1,515
Other social security costs	2	90
Total staff costs	16,823	20,714
Average number of full-time employees	18	18

According to section 98b(3) of the Danish Financial Statements Act, remuneration of the Executive Board is not disclosed. No remuneration was paid to the Board of Directors (2017: DKK 0 thousand).

DKK'000	2018	2017
5 Financial income		
Interest income, exchange rate gain and similar income	49	5
Interest income, group entities	783	9,233
Financial instruments, exchange adjustment of electricity options	0	283
Total other financial income	832	9,521

6 Financial expenses

Interest expense, exchange rate loss and similar expenses	397	260
Interest expense, group entities	71	949
Financial instruments, exchange adjustment of electricity options	0	33
Loss on the sale of financial contracts	4,940	0
Total other financial expenses	5,408	1,242

Financial statements for the year 1 January – 31 December

Notes to the financial statements

7 Tax on the profit/loss for the year

DKK'000	2018	2017
Utilisation of tax from joint taxation	4,931	22,995
Adjustment regarding prior year	1,578	2,383
Total Tax on the profit/loss for the year	6,509	25,378

8 Property, plant and equipment

DKK'000	Fixtures and fittings, tools and equipment
Cost at 1 January 2018	12,887
Additions	1,409
Disposals	-224
Cost at 31 December 2018	14,072
Impairment losses and depreciation at 1 January 2018	-10,593
Depreciations	-967
Impairment losses and depreciation at 31 December 2018	-11,560
Carrying amount at 31 December 2018	2,512

9 Receivables from group entities

Included in receivables from group entities is a group cash-pool receivable of DKK 35,966 thousand (2017: DKK 356,180 thousand).

10 Contractual obligations and contingencies, etc.

As management company, the Company is jointly taxed with other Danish group entities and is jointly and severally liable with other jointly taxed group entities for payment of income taxes for the income year 2013 onwards as well as withholding taxes on interest, royalties and dividends falling due for payment on or after 1 July 2012.

Other financial obligations

The Company has no other financial obligations.

Financial statements for the year 1 January – 31 December

Notes to the financial statements

11 Related parties

According to section 98 (7) of the Danish Financial Statements Act, all transactions between the company and its related parties are carried out on market terms. Except for the non-collection of negative interest on net bank deposits in the Group's cash pool arrangement.

Parties exercising control

<u>Related party</u>	<u>Domicile</u>	<u>Basis for control</u>
Vattenfall AB	16287 Stockholm, Sweden	Parent

Information about consolidated financial statements

<u>Parent</u>	<u>Domicile</u>	<u>Requisitioning of the parent company's consolidated financial statements</u>
Vattenfall AB	16287 Stockholm, Sweden	www.vattenfall.com

Ownership

The following shareholders are registered in the Company's register of shareholders as holding minimum 5% of the votes or minimum 5% of the share capital:

<u>Name</u>	<u>Domicile</u>
Vattenfall AB	16287 Stockholm, Sweden

12 Fee to the auditors appointed by the Company in general meeting

Audit fees are not disclosed with reference to section 96(3) of the Danish Financial Statements Act. The fee is specified in the consolidated financial statements for Vattenfall AB.

13 Proposed dividend recognized under equity

	<u>2018</u>	<u>2017</u>
Profit/loss for the year	-10,901	-15,824
Amount available for distribution	-10,901	-15,824
Proposed dividend	0	0
Retained earnings	-10,901	-15,824
Retained earnings/accumulated loss	-10,901	-15,824